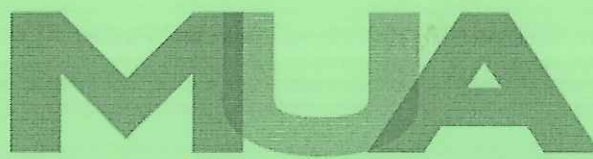


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**UNDERGRADUATE UNIVERSITY EXAMINATIONS**

**SCHOOL OF MANAGEMENT AND LEADERSHIP**

**DEGREE OF BACHELOR OF COMMERCE**

**ACC 311 : FINANCIAL ACCOUNTING THEORY**

**DATE: 10<sup>TH</sup> AUGUST 2018**

**DURATION: 2 HOURS**

**MAXIMUM MARKS: 70**

**INSTRUCTIONS:**

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. **Write all your answers in the Examination answer booklet provided.**

**QUESTION ONE**

- a) Presented below is a statement that appeared about Weyer Haeuser Company in financial magazine. The Land and Timber Holdings are now carried on the company's books at mere Kshs.422 million. The value of timber alone is variously estimated at from Kshs.3 billion to Kshs.7 billion and is rising all the time. "The understatement of the company is pretty severe," concedes Charles W. Bringttam, a Senior Vice President. Adds Robert L. Schuyler, another senior Vice President. "We have a whole stream of profit nobody sees and there is no way to show it in our books".

Required:

- a) If the overstatement of the company's asset is severe, why does accounting not report this information? **(4 Marks)**
- b) In the above situation, is there a conflict between relevancy and reliability? Explain. **(6 Marks)**
- c) State and explain the principles of accounting on which each of the treatments described below are based.
- i) Calibre or quality of management is not directly disclosed on the balance sheet. **(3 Marks)**
  - ii) Debentures are marked at the same amount in shillings which the company borrowed though the purchasing power of money may have substantially changed. **(3 Marks)**
  - iii) Advance received from a customer is not taken as income or sales. **(3Marks)**
  - iv) Rent paid for that portion of the premises utilized by the owner of the business for his personal use is reduction of owner's equity. **(3 Marks)**
  - v) Costs of advertising campaign are charged as expense in the period in which the company's financial statements are made. **(3Marks)**



**QUESTION TWO**

- a) In relation to international accounting committee "framework for the preparation and presentation of financial statements."
- i) What is the objective of financial statements? **(4 Marks)**
  - ii) What factors affect financial position of an enterprise? **(3 Marks)**
- b) "Qualitative characteristics are the attributes that make the information provided in financial statement useful to users". Discuss the main qualitative characteristics with reference to the providers of risk capital to an enterprise. **(8Marks)**

**QUESTION THREE**

Price level adjustment may be accomplished by using specific price indexes as well as a general price level index. One possibility is to use a weighted average price index for the firm's own mix of assets. What are the shortcomings of adopting this approach? **(15 Marks)**

**QUESTION FOUR:**

Mr. Kiprop has been hired recently by worldwide Kenya Ltd. as the finance director. Among the changes that he has proposed includes reporting the Human Resources asset in the financial statements. To this effect, he issued a memo to the chief accountant advising him to include the human resource assets when preparing the financial statements of the current year. The chief accountant is puzzled as he has never heard of human resources accounting. Prepare a report to the chief accountant giving him:

- i) The definition of HRA
- ii) Approaches to human resources valuation
- iii) Benefits of HRA
- iv) The contents of HR report **(15 Marks)**

**QUESTION FIVE:**

- (a) A single universally accepted basic accounting theory does not exist at the moment. Instead, a multiplicity of theories have been proposed. Explain the statement. (10 marks)
- (b) Explain the meaning of syntactical, semantical and pragmatic theories with suitable examples. (5 marks)

**QUESTION SIX**

- a) Comment on the significant developments that occurred between 1930 and 1933 that helped to bring about changes in accounting theory. (10 marks)
- b) "Without accounting concepts and conventions objective, reliable, consistent and comparable accounts cannot be maintained." Comment. (5 marks)